

CITY OF LAKELAND, TENNESSEE

FINANCIAL STATEMENTS

June 30, 2012



Watkins Uiberall, PLLC
Certified Public Accountants & Financial Advisors
Independent Member of BKR International

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City of Lakeland

December 12, 2012

To the Mayor, Board of Commissioners and Citizens of Lakeland:

The Comprehensive Annual Financial Report (CAFR) of the City of Lakeland, Tennessee for the fiscal year ended June 30, 2012, is hereby submitted in accordance with the City of Lakeland Charter requirement for an independent audit by a certified public accounting firm. The financial statements are presented in conformity with generally accepted accounting principles (GAAP) as set forth by the Governmental Accounting Standards Board (GASB) and have been audited in accordance with generally accepted auditing standards.

This report consists of management's representations concerning the finances of the City of Lakeland. Management assumes full responsibility for the completeness and reliability of all of the information presented in this report. Management of the City has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with GAAP. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

Watkins Uiberall, PLLC has audited the City of Lakeland financial statements, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ended June 30, 2012, are free of material misstatement. The independent auditor concluded, based upon the audit, that there was a reasonable (clean) basis for rendering an unqualified opinion that the City's financial statements for the fiscal year ended June 30, 2012, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of the report.

Profile of the Government

The City of Lakeland, incorporated in 1977, is located in northeast Shelby County in the Southwestern part of the State. Lakeland occupies 24 square miles and serves a population of over 12,430. The City is empowered by state statute to extend its corporate limits by annexation, which occurs periodically when deemed appropriate by the Board of Mayor and Commissioners.

The City of Lakeland's charter provides for a Manager-Commission form of Government. This is a Statutory Charter established by the State of Tennessee.

Lakeland's daily operational activities are handled by a City Manager, who is appointed by the Board of Commissioners. Under Lakeland's form of government, the five-member Board of Commissioners, one of whom is elected as Mayor, are elected at large. The Commissioners' duties are to set City policy through legislation and to supervise and evaluate the management of the City by the City Manager. The Board of Commissioners, among other things, is responsible for passing ordinances, adopting the budget and appointing members of Advisory Boards and Commissions. The Board of four Commissioners and the Mayor are elected to four-year terms by popular vote. One-half of the Board is elected every two years.

The City of Lakeland provides a range of municipal services including street and drainage construction and maintenance, solid waste collection, recreational programs, planning and zoning and administrative services. In addition, the City operates a sewer utility system as an Enterprise Fund.

The Shelby County Schools Board of Education provides educational services to students within the jurisdiction of the City of Lakeland. The County school system is part of the Shelby County Government of Shelby County. The Memphis Light, Gas, and Water Division of the City of Memphis provide electrical, water, and natural gas distribution to the Lakeland service area. The City of Memphis also provides sewer service to residents located in a portion of Lakeland that is located north of Highway 64, south of Interstate 40, and west of Canada Road. Approximately 1000 households reside in this area. These entities do not meet the established criteria for inclusion in the reporting entity and are not included in this report.

The City of Lakeland annually prepares a plan of services for the upcoming fiscal year and the estimated cost of providing those services. This plan is reviewed by the Board of Mayor and Commissioner and is formally adopted by the passage of a budget ordinance. Strict budgetary compliance is maintained by the automated accounting system to assure effective fiscal management and accountability. All requests for purchases are checked by the City Manager to assure that funds are available. Purchase Orders and contracts are encumbered prior to release to vendors. The City Manager may transfer resources within a department as required.

Local Economy

The City of Lakeland currently has a moderate economic growth and is continuing to grow, although this growth has slowed significantly from at least 2008 to date. The City population at the last Federal Census in 2010 was 12,430.

The City of Lakeland purchased several tracts of land adjacent to the existing City Hall complex in preparation for construction of Fire Station # 2. This fire station is proposed to be built and owned by the City and staffed and equipped by the Shelby County Fire Department.

The Board of Commissioners has approved a local match of \$3,000,000 for the interchange at I-40 and Canada Road for a joint project with the Tennessee Department of Transportation for the construction of a single-point interchange. Construction of the interchange is anticipated to start in 2013. As part of that project, Bevele Rivera Drive will be extended to improve the traffic circulation in this area.

The City is in the process of the development of new Land Development Regulations. Once approved, the regulations will affect all new development.

Several Planned Developments and other subdivisions remain unconstructed, or are so early in the construction stages that no permits have been sought. These developments comprise over 1,500 single-family lots and some commercial development. They appear to have languished due to the economic downturn.

Among the larger commercial site plans approved by the City, Lakeland Station (the former outlet Mall) remains in a pending status, due to developer's changing timelines. Corner Shops (at Canada Road & Hwy 64) is built on its southern end, and is almost fully leased.

Street and storm sewer improvements are in progress throughout the City. Traffic signals at I-40 and Canada Road (funded by a congestion grant) and Highway 70 and Canada Road (funded by a safety grant) were completed in this fiscal year.

Long-term financial planning

- Design and Construction of a new Fire Station #2
- Acquisition of property for a major sports park
- Several streets improvement projects, including the extension of Beverle Rivera Road.
- Planning and construction of New Canada Road
- The City of Lakeland imposed its' first property tax in this fiscal year (FY 2012 ending June 30, 2012). While revenues are not received until the fiscal year starting July 1, 2012 and ending June 30, 2013, the property tax is effective as of January 1, 2012.

Major initiatives

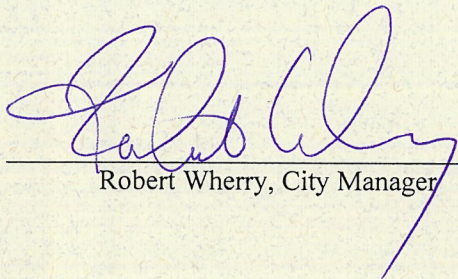
- Preliminary construction plans are right of way are being developed for New Canada Road. This is funded 80% by a grant and 20% by the City.
- Acquisition of Right of Way for construction of Beverle Rivera Road was concluded during the previous Fiscal Year with the completion of the Water's Edge plat designating right of way. Engineering started in this fiscal year ending June 30, 2012.
- Resurfacing and reconstruction of Huff 'n' Puff Road using Federal Surface Transportation Funds with a local match will be delayed until 2013 in conjunction with the interchange.
- Ongoing analysis of the Sewer Fund in order to balance revenues with expenditures.
- 2012 Planning Department Work Plan
- A Strategic Plan for Economic Development is recently continues with the Economic Development Commission, expected in 2013.
- A grant was obtained for IH Club House Renovations, which was completed in 2012.

- IH Parking Lot Improvements were constructed and completed in 2012.
- The Lakeland Senior Center was constructed through a Community Development Block Grant and a funds provided by the City of Lakeland in 2012.

The preparation of this report would not have been possible without the efficient and dedicated service of the entire staff of the finance and administration department. We wish to express our appreciation to all members of the department who assisted and contributed to the preparation of this report.

Credit also must be given to the Mayor and the Commissioners for their unfailing support for maintaining the highest standards of professionalism in the management of the City of Lakeland's finances.

Respectfully submitted,



Robert Wherry, City Manager

City of Lakeland, Tennessee
City Officials
June 30, 2012

Mayor

Scott Carmichael

Commissioners

Cecil Tompkins, Vice Mayor
Gerrit Verschuur, Commissioner
Don Barber, Commissioner
Commissioner
Randy Nicholson

Appointed Officials

City Manager/Director of Finance

Robert Wherry

City Attorney

David Lakin

City Treasurer

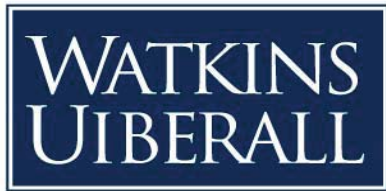
Shirley Barker

City Recorder

Sontidra Thomas

City Engineer

Philip Stuckert



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INDEPENDENT AUDITOR'S REPORT

To the Mayor and Board of Commissioners of the
City of Lakeland, Tennessee:

We have audited the accompanying financial statements of the governmental activities, the business-type activity, each major fund, the statements of budgetary comparison for the general fund and solid waste fund, and the aggregate remaining fund information of the City of Lakeland, Tennessee, (the "City") as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activity, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2012, and the respective changes in financial position, and, where applicable, cash flows, and the budgetary comparisons for the general fund and solid waste fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2012, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The introductory section and supplementary information as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards and state financial assistance is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The supplementary information on pages 39 to 43 and the schedule of expenditures of federal awards on page 44 and 45 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory section and supplementary information on pages 46 and 48 have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

A handwritten signature in black ink that reads "Watkins Kilgusall, PLLC". The signature is written in a cursive, flowing style.

Memphis, Tennessee
December 12, 2012

Management's Discussion and Analysis

This is a narrative overview and analysis of the financial activities of the City of Lakeland for the fiscal year ended June 30, 2012. Please consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal and notes to the financial statements.

Financial Highlights

- The assets of the City of Lakeland exceeded its liabilities at the close of the most recent fiscal year by \$53,176,000 (net assets). All net assets of the City of Lakeland are unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors.
- The City of Lakeland's total net assets increased by \$608,826 in fiscal year 2012.
- As of June 30, 2012, the City of Lakeland's governmental funds reported combined ending fund balances of \$3,100,990, a decrease of \$343,596 in comparison with the prior year.
- At the end of the current fiscal year, unreserved, undesignated fund balance for the general fund was \$2,815,524 or 102 percent of total general fund expenditures.
- The City of Lakeland's total debt increased \$262,993 during the current fiscal year.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City of Lakeland's basic financial statements. The City of Lakeland's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements: The government-wide financial statements are designed to provide readers with a broad overview of the City of Lakeland's finances, in a manner similar to a private-sector business.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Lakeland that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of Lakeland

include general government, capital projects, public safety, public works, and parks and recreation. The business-type activities of the City of Lakeland include the operation of the sewer facilities.

The government-wide financial statements include only the City of Lakeland itself. The City of Lakeland operates a sewer system, which is reported as a proprietary fund in the City's financial statements.

Fund financial statements: A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Lakeland, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Lakeland can be divided into two categories: governmental funds and proprietary funds.

Governmental funds: Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Lakeland maintains two individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and solid waste fund. The City of Lakeland adopts an annual appropriated budget for its general fund and solid waste fund. Budgetary comparison statements have been provided to demonstrate compliance with these budgets.

Proprietary funds: The City of Lakeland maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Lakeland uses an enterprise fund to account for its Sewer operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide information for the sewer activities of the City of Lakeland, which is considered to be a major fund.

Notes to the financial statements: The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information: In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information.

Government-wide Financial Analysis:

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Lakeland, assets exceeded liabilities by \$53,176 at the close of June 30, 2012.

By far the largest portion of the City of Lakeland's net assets (88.8 percent) reflects its investment in capital assets (e.g. land, buildings, machinery, and equipment) less any related debt used to acquire those assets that are still outstanding. The City of Lakeland uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Lakeland's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The City has \$11,289,976 of outstanding debt as of June 30, 2012.

The following provides a summary of the City's net assets at June 30, 2012:

Summary of Net Assets

	Governmental Activities		Business-Type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Current & Other Assets	\$ 6,507,506	\$ 4,394,710	\$ 1,810,068	\$ 1,917,841	\$ 8,317,574	\$ 6,312,551
Capital Assets	41,916,176	43,686,536	14,794,630	15,130,254	56,710,806	58,816,790
Total Assets	48,423,682	48,081,246	16,604,698	17,048,095	65,028,380	65,129,341
Current Liabilities	3,666,431	955,060	467,383	426,544	4,133,814	1,381,604
Long-term Debt	3,082,637	3,377,272	7,377,100	7,803,250	10,459,737	11,180,522
Total Liabilities	6,749,068	4,332,332	7,844,483	8,229,794	14,593,551	12,562,126
Net Asset:						
Invested Capital Assets	38,573,624	39,976,933	6,933,630	6,856,254	45,507,254	46,833,187
Restricted	49,628	131,832	-	-	49,628	131,832
Unrestricted	3,051,362	3,640,149	1,826,585	1,962,047	4,877,947	5,602,196
Total Net Assets	\$ 41,674,614	\$ 43,748,914	\$ 8,760,215	\$ 8,818,301	\$ 50,434,829	\$ 52,567,215

At the end of the current fiscal year, the City is able to report positive balances in all categories of net assets.

The City's net assets increased by \$608,825 during the current fiscal year. Of this amount, \$666,911 represented an increase in the net assets from governmental activities and \$58,086 represented a decrease in the net assets from business-type activities.

The following provides a summary of activities for the City during the fiscal year ended June 30, 2012.

Summary of Changes in Net Assets

	Governmental Activities		Business-Type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Program Revenues						
Charges for services	\$ 1,439,374	\$ 1,373,540	\$ 1,065,452	\$ 919,637	\$ 2,504,826	\$ 2,293,177
Operating grants & capital contributions	980,960	1,625,957	-	-	980,960	1,625,957
General Revenues						
Local Taxes	909,919	1,090,075	-	-	909,919	1,090,075
Intergovernmental	1,134,539	949,264	-	-	1,134,539	949,264
Interest on investments	21,883	42,246	8,735	22,911	30,618	65,157
Other	289,676	73,408	4,600	-	294,276	73,408
Total Revenues	4,776,351	5,154,490	1,078,787	942,548	5,855,138	6,097,038
Expenses						
General Government	1,992,635	1,952,655	-	-	1,992,635	1,952,655
Public Safety	2,021	3,958	-	-	2,021	3,958
Public Works	4,659,331	4,528,436	-	-	4,659,331	4,528,436
Parks & Rec.	189,003	239,838	-	-	189,003	239,838
Natural Resources	7,661	14,687	-	-	7,661	14,687
Storm Water	-	-	-	-	-	-
Business Type Sewer	-	-	1,136,873	1,101,423	1,136,873	1,101,423
Total Expenses	6,850,651	6,739,574	1,136,873	1,101,423	7,987,524	7,840,997
Change in Net Asset	(2,074,300)	(1,585,084)	(58,086)	(158,875)	(2,132,386)	(1,743,959)
Net Assets Beginning	43,748,914	45,333,998	8,818,301	8,977,176	52,567,215	54,311,174
Net Assets End of Year	<u>\$ 41,674,614</u>	<u>\$ 43,748,914</u>	<u>\$ 8,760,215</u>	<u>\$ 8,818,301</u>	<u>\$ 50,434,829</u>	<u>\$ 52,567,215</u>

Governmental Activities

Governmental activities decreased the City's net assets by \$666,911.

Business-Type Activities

Business-type activities decreased the City's net assets by \$58,086. The key elements of this decrease are as follows:

Depreciation expense for sewer accounted for \$441,819 of total decrease.

Financial Analysis of the City's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with financial-related legal requirements.

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the City's

net resources available for spending at the end of the fiscal year. As of the end of the current fiscal year, the City of Lakeland's governmental funds reported combined ending fund balances of \$3,100,990 which was a decrease of \$343,596 in comparison with the prior year. Approximately 90% of this amount, \$ 2,815,524, constitutes unreserved fund balance, which is available for spending at the City's discretion.

The General Fund is the principal operating fund of the City. At the end of the current fiscal year, the fund balance of the General Fund was \$2,815,524. The General Fund balance represents approximately 103% of the total General Fund expenditures and transfers out. The fund balance of the City's General Fund decreased by \$343,596 as a result of the current year operations.

Proprietary Funds

The City's proprietary funds provide the same type information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the sewer fund at the end of the year amounted to \$1,826,585. Other factors concerning the financial position of this fund have already been addressed in the discussion of the City's business-type activities.

Capital Assets and Debt Administration

Capital Assets

The City's investment in capital assets for its governmental and business type activities as of June 30, 2012, amounts to \$56,710,806 (net of accumulated depreciation) a decrease of \$2,105,984 from prior year. This investment in capital assets includes land, buildings and improvements, furnishing and equipment, infrastructure, and construction in process.

Major capital asset events during the fiscal year included the following:

- Various street and road improvements
- Contributions of infrastructure & sewer collection from completed development

Summary of Capital Assets

	Governmental Activities		Business-Type Activities		Totals	
	2012	2011	2012	2011	2012	2012
Land	\$ 7,140,990	\$ 7,140,990	\$ 75,360	\$ 75,360	\$ 7,216,350	\$ 7,216,350
Building & Improvement	2,668,199	2,668,199	18,013,660	17,937,465	20,681,859	20,605,664
Machinery & equipment	1,249,379	1,288,460	-	-	1,249,379	1,288,460
Improvements other	4,355,166	4,355,166	-	-	4,355,166	4,355,166
Vehicles	-	-	188,859	188,859	188,859	188,859
Construction in Progress	1,580,732	1,840,861	30,000	-	1,610,732	1,840,861
Infrastructure	62,757,984	61,012,146	-	-	62,757,984	61,012,146
Less: Accumulated Depreciation	(37,836,274)	(34,619,286)	(3,513,249)	(3,071,430)	(41,349,523)	(37,690,716)
Total Capital Assets	\$ 41,916,176	\$ 43,686,536	\$ 14,794,630	\$ 15,130,254	\$ 56,710,806	\$ 58,816,790

Additional information on the City's capital assets can be found in Note 4 to the financial statements on pages 32 – 33.

Summary of Outstanding Debt

	Governmental Activities		Business-Type Activities		Totals	
	2012	2011	2012	2011	2012	2011
General obligation loans	\$ 3,446,610	\$ 3,709,603	\$ 7,807,100	\$ 8,216,250	\$ 11,253,710	\$ 11,925,853
Total Revenues	\$ 3,446,610	\$ 3,709,603	\$ 7,807,100	\$ 8,216,250	\$ 11,253,710	\$ 11,925,853

Information related to the City's long-term debt can be found in Note 4 to the financial statements on pages 34 - 35 of this report.

Budget Discussion (Fiscal Year 2012-2013 budget)

The major sources of revenue for the City are local and state shared taxes, development / building fees, user fees and a newly instituted property tax, part of which is to be directed to establishing and operating a Lakeland Municipal School System.

Based on data from the Municipal Technical Advisory Service (MTAS) the estimated State Shared Taxes revenues are projected to slightly increase from the last year's budget.

The City sales tax revenues were significantly impacted by a major source of sales tax revenue, the Kroger grocery store, closing in Lakeland in September of 2011. While attempts are being made to attract a new tenant, we are projecting sales tax revenues to significantly decrease. Also, no activity is expected for the Lakeland Mall in this fiscal year, since it is expected that construction activities will not allow any new businesses in the mall. Several new businesses are expected to generate a small amount of additional revenue, but not a significant amount when compared to the closure of the Kroger store.

The Board of Commissioners has approved an Ordinance calling for an increase of the sales tax from 2.25% to 2.75%. The estimated additional revenue, \$200,000 (for Fiscal Year 2012-2013) is budgeted for establishment and operation of a Lakeland Municipal School System or similar municipal school activities.

Property tax revenues are expected to generate a significant source of revenues. At least \$800,000 of the property tax is reserved for schools or school type activities. The remainder is budgeted for general fund capital improvements, including street and road repair and construction, park acquisition and development and drainage improvements.

The City fee structure is based on the concept that development etc. pays for itself (so existing residents and businesses do not subsidize new development) without overcharging for development by charging development and building fees. The City budgets relatively conservatively, and even one medium size development would have a major effect on revenues.

The City of Lakeland has approved an operating budget of \$5,164,390 and capital improvements of \$9,198,000, \$2,100,000 from grants, and TML loan of \$4,100,000. The total budget for the 2012-2013 is \$13,362,390.

Requests for Information

This financial report is designed to provide a general overview of the City of Lakeland's finances for all those with an interest in the government's finances. Question concerning any of the information provided in this report or requests for additional financial information should be addressed to City of Lakeland, Office of Finance, 10001 U.S. Highway 70 Lakeland, Tennessee 38002.

CITY OF LAKELAND, TENNESSEE

STATEMENT OF NET ASSETS

June 30, 2012

	Primary Government		
	Governmental	Business-type	
	Activities	Activity	Total
ASSETS			
Cash and cash equivalents	\$ 3,103,726	\$ 1,533,488	\$ 4,637,214
Receivables (net of allowance for uncollectibles):			
Taxes	2,741,211	-	2,741,211
Accounts	36,036	85,153	121,189
Interest	11,555	7,386	18,941
Internal balances	(184,041)	184,041	-
Due from other governments	799,019	-	799,019
Capital assets, not being depreciated	8,721,722	105,360	8,827,082
Capital assets, being depreciated, net	33,194,454	14,689,270	47,883,724
Total assets	<u>48,423,682</u>	<u>16,604,698</u>	<u>65,028,380</u>
LIABILITIES			
Accounts payable	246,465	37,383	283,848
Accrued expenses	89,549	-	89,549
Deferred revenue	2,741,211	-	2,741,211
Customer deposits	221,165	-	221,165
Due to other governments	4,068	-	4,068
Noncurrent liabilities:			
Due within one year	363,973	430,000	793,973
Due in more than one year	3,082,637	7,377,100	10,459,737
Total liabilities	<u>6,749,068</u>	<u>7,844,483</u>	<u>14,593,551</u>
NET ASSETS			
Invested in capital assets, net of related debt	38,573,624	6,933,630	45,507,254
Restricted for:			
Street activities	49,628	-	49,628
Unrestricted	3,051,362	1,826,585	4,877,947
Total net assets	<u>\$ 41,674,614</u>	<u>\$ 8,760,215</u>	<u>\$ 50,434,829</u>

The accompanying notes are an integral part of the financial statements.

CITY OF LAKELAND, TENNESSEE

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2012

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental Activities:				
General government	\$ 1,992,635	\$ 89,083	\$ -	\$ -
Public safety	2,021	-	-	-
Public works	4,659,331	1,269,291	347,756	633,204
Senior citizens activities	3,472	-	-	-
Parks and recreation	185,531	81,000	-	-
Natural resources	7,661	-	-	-
Total governmental activities	6,850,651	1,439,374	347,756	633,204
Business-type activity:				
Sewer	1,136,873	1,065,452	-	-
Total primary government	\$ 7,987,524	\$ 2,504,826	\$ 347,756	\$ 633,204

General revenues:

Local taxes

Local sales tax

Wholesale beer tax

Business tax

CATV franchise tax

Hotel/Motel tax

Intergovernmental

State of Tennessee shared taxes

Sales tax

Beer tax

Income tax

Liquor tax

Receipts in lieu of tax - TVA

Interest on investments

Other

Total general revenues and transfers

Change in net assets

Net assets - beginning

Net assets - ending

The accompanying notes are an integral part of the financial statements.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activity	Total
\$ (1,903,552)	\$ -	\$ (1,903,552)
(2,021)	-	(2,021)
(2,409,080)	-	(2,409,080)
(3,472)	-	(3,472)
(104,531)	-	(104,531)
(7,661)	-	(7,661)
(4,430,317)	-	(4,430,317)
-	(71,421)	(71,421)
(4,430,317)	(71,421)	(4,501,738)
567,861	-	567,861
116,843	-	116,843
61,387	-	61,387
116,472	-	116,472
47,356	-	47,356
843,191	-	843,191
6,102	-	6,102
139,418	-	139,418
2,217	-	2,217
143,611	-	143,611
21,883	8,735	30,618
289,676	4,600	294,276
2,356,017	13,335	2,369,352
(2,074,300)	(58,086)	(2,132,386)
43,748,914	8,818,301	52,567,215
\$ 41,674,614	\$ 8,760,215	\$ 50,434,829

CITY OF LAKELAND, TENNESSEE

**BALANCE SHEET
GOVERNMENTAL FUNDS**

June 30, 2012

	<u>General Fund</u>	<u>Solid Waste</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 2,982,867	\$ 19,486	\$ 101,373	\$ 3,103,726
Receivables				
Taxes	2,797,154	-	-	2,797,154
Accounts	36,036	-	-	36,036
Interest	11,555	-	-	11,555
Less: allowance for doubtful accounts	(55,943)	-	-	(55,943)
Due from other funds	2,710	-	-	2,710
Due from other governments	634,412	93,137	71,470	799,019
	<u>634,412</u>	<u>93,137</u>	<u>71,470</u>	<u>799,019</u>
Total assets	<u>\$ 6,408,791</u>	<u>\$ 112,623</u>	<u>\$ 172,843</u>	<u>\$ 6,694,257</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 246,465	\$ -	\$ -	\$ 246,465
Accrued liabilities	89,549	-	-	89,549
Deferred revenue - taxes	2,691,030	-	-	2,691,030
Deferred revenue - grants	154,239	-	-	154,239
Refundable deposits	221,165	-	-	221,165
Due to other funds	186,751	-	-	186,751
Due to other agencies and governments	4,068	-	-	4,068
Total liabilities	<u>3,593,267</u>	<u>-</u>	<u>-</u>	<u>3,593,267</u>
Fund balances:				
Restricted for:				
Street activities	-	-	49,628	49,628
Committed to:				
Stormwater activities	-	-	123,215	123,215
Assigned to:				
Solid waste activities	-	112,623	-	112,623
Unassigned	2,815,524	-	-	2,815,524
Total fund balances	<u>2,815,524</u>	<u>112,623</u>	<u>172,843</u>	<u>3,100,990</u>
Total liabilities and fund balances	<u>\$ 6,408,791</u>	<u>\$ 112,623</u>	<u>\$ 172,843</u>	<u>\$ 6,694,257</u>

The accompanying notes are an integral part of the financial statements.

CITY OF LAKELAND, TENNESSEE

**RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS
GOVERNMENTAL FUNDS**

June 30, 2012

Amounts reported for governmental activities in the statement of net assets are different because:

Total governmental fund balances	\$ 3,100,990
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	41,916,176
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	104,058
Long-term liabilities, including notes payable and capital leases, are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(3,446,610)</u>
Net assets of governmental activities	<u><u>\$ 41,674,614</u></u>

The accompanying notes are an integral part of the financial statements.

CITY OF LAKELAND, TENNESSEE

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS**

For the Year Ended June 30, 2012

	<u>General Fund</u>	<u>Solid Waste Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES				
Taxes	\$ 960,100	\$ -	\$ -	\$ 960,100
Licenses and permits	89,083	-	-	89,083
Intergovernmental	1,160,051	-	322,244	1,482,295
Charges for services	81,000	1,094,108	175,183	1,350,291
Federal, state, and local grants	806,360	-	-	806,360
Interest income	21,883	-	-	21,883
Other	289,676	-	-	289,676
Total revenues	<u>3,408,153</u>	<u>1,094,108</u>	<u>497,427</u>	<u>4,999,688</u>
EXPENDITURES				
Current				
General government	1,785,326	-	-	1,785,326
Capital projects	1,527,626	-	-	1,527,626
Public safety	2,021	-	-	2,021
Public works	-	1,120,388	460,808	1,581,196
Senior citizen activities	3,472	-	-	3,472
Parks and recreation	128,477	-	-	128,477
Natural resources	7,661	-	-	7,661
Debt Service				
Principal	345,147	-	-	345,147
Interest and fiscal charges	42,137	-	-	42,137
Total expenditures	<u>3,841,867</u>	<u>1,120,388</u>	<u>460,808</u>	<u>5,423,063</u>
Excess (deficiency) of revenues over (under) expenditures	(433,714)	(26,280)	36,619	(423,375)
OTHER FINANCING SOURCES (USES)				
Issuance of debt	<u>79,779</u>	<u>-</u>	<u>-</u>	<u>79,779</u>
Net change in fund balances	(353,935)	(26,280)	36,619	(343,596)
Fund balances - beginning	<u>3,169,459</u>	<u>138,903</u>	<u>136,224</u>	<u>3,444,586</u>
Fund balances - ending	<u>\$ 2,815,524</u>	<u>\$ 112,623</u>	<u>\$ 172,843</u>	<u>\$ 3,100,990</u>

The accompanying notes are an integral part of the financial statements.

CITY OF LAKELAND, TENNESSEE

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

For the Year Ended June 30, 2012

Amounts reported for governmental activities in the statement of net activities
are different because:

Net change in fund balance - total governmental funds	\$ (343,596)
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays and contributions in the current period.

	(1,770,360)
--	-------------

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

	(223,337)
--	-----------

The issuance of long-term debt (e.g. notes payable and capital leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debts consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs and similar items when first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt.

	<u>262,993</u>
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Change in net assets of governmental funds	<u><u>\$ (2,074,300)</u></u>
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The accompanying notes are an integral part of the financial statements.

CITY OF LAKELAND, TENNESSEE

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
BUDGET AND ACTUAL – GENERAL FUND**

For the Year Ended June 30, 2012

	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
	Original and Final	Actual Amounts	
REVENUES			
Taxes			
Property tax	\$ -	\$ 50,181	\$ 50,181
Local sales tax	800,000	567,861	(232,139)
Wholesale beer tax	140,000	116,843	(23,157)
Business tax	60,000	61,387	1,387
CATV franchise tax	110,000	116,472	6,472
Hotel/Motel tax	45,000	47,356	2,356
Total taxes	<u>1,155,000</u>	<u>960,100</u>	<u>(194,900)</u>
Licenses and permits			
Building permit fees	38,000	46,452	8,452
Inspection fees	17,700	16,300	(1,400)
Plat approval fees	15,000	3,100	(11,900)
Others	40,943	23,231	(17,712)
Total licenses and permits	<u>111,643</u>	<u>89,083</u>	<u>(22,560)</u>
Intergovernmental			
State of Tennessee shared taxes			
Sales tax	897,965	843,191	(54,774)
Beer tax	6,960	6,102	(858)
Income tax	134,000	139,418	5,418
Transportation tax	26,850	25,512	(1,338)
Liquor tax	-	2,217	2,217
Receipts in lieu of tax - TVA	120,000	143,611	23,611
Total intergovernmental	<u>1,185,775</u>	<u>1,160,051</u>	<u>(25,724)</u>
Charges for services			
Recreation fees	47,500	52,371	4,871
Rental income	35,400	28,629	(6,771)
Payments in lieu of roads and parks	20,547	-	(20,547)
Total charges for services	<u>103,447</u>	<u>81,000</u>	<u>(22,447)</u>
State grants	<u>3,410,000</u>	<u>806,360</u>	<u>(2,603,640)</u>

The accompanying notes are an integral part of the financial statements.

CITY OF LAKELAND, TENNESSEE

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
BUDGET AND ACTUAL – GENERAL FUND (CONTINUED)**

For the Year Ended June 30, 2012

	Budgeted Amounts <u>Original and Final</u>	Actual Amounts <u></u>	Variance with Final Budget - Positive (Negative) <u></u>
REVENUES (continued)			
Interest income	<u>50,500</u>	<u>21,883</u>	<u>(28,617)</u>
Other revenue	<u>24,800</u>	<u>289,676</u>	<u>264,876</u>
Total revenues	<u>6,041,165</u>	<u>3,408,153</u>	<u>(2,633,012)</u>
EXPENDITURES			
General government			
Personnel compensation	1,203,500	962,211	241,289
Fringe benefits	452,000	363,470	88,530
Office communication expense	11,000	24,915	(13,915)
Utility services	41,000	40,553	447
Professional services	216,400	255,991	(39,591)
Repair/travel/supplies	124,590	93,971	30,619
Insurance	53,200	44,146	9,054
Emergency shelter	250,000	-	250,000
Other services	<u>17,540</u>	<u>69</u>	<u>17,471</u>
Total general government	<u>2,369,230</u>	<u>1,785,326</u>	<u>583,904</u>
Capital projects	<u>3,355,000</u>	<u>1,527,626</u>	<u>1,827,374</u>
Public safety			
Other contracted services	3,000	-	3,000
Other professional services, electric, and miscellaneous	<u>4,200</u>	<u>2,021</u>	<u>2,179</u>
Total public safety	<u>7,200</u>	<u>2,021</u>	<u>5,179</u>
Senior citizen activities	<u>-</u>	<u>3,472</u>	<u>(3,472)</u>
Parks and recreation			
Contracted services	9,000	2,926	6,074
Maintenance, utilities, and miscellaneous	<u>175,550</u>	<u>125,551</u>	<u>49,999</u>
Total parks and recreation	<u>184,550</u>	<u>128,477</u>	<u>56,073</u>

The accompanying notes are an integral part of the financial statements.

CITY OF LAKELAND, TENNESSEE

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
BUDGET AND ACTUAL – GENERAL FUND (CONTINUED)**

For the Year Ended June 30, 2012

	Budgeted Amounts <u>Original and Final</u>	Actual Amounts <u></u>	Variance with Final Budget - Positive (Negative) <u></u>
EXPENDITURES (continued)			
Natural resources			
Professional and contracted services	2,450	5,917	(3,467)
Other services	7,700	1,744	5,956
Total natural resources	<u>10,150</u>	<u>7,661</u>	<u>2,489</u>
Debt service			
Principal	308,000	345,147	(37,147)
Interest and fiscal charges	41,000	42,137	(1,137)
Total debt service	<u>349,000</u>	<u>387,284</u>	<u>(38,284)</u>
Total expenditures	<u>6,275,130</u>	<u>3,841,867</u>	<u>2,433,263</u>
Excess (deficiency) of revenues over (under) expenditures	(233,965)	(433,714)	(199,749)
OTHER FINANCING SOURCES (USES)			
Issuance of debt	<u>150,000</u>	<u>79,779</u>	<u>(70,221)</u>
Net change in fund balance	<u>\$ (83,965)</u>	<u>(353,935)</u>	<u>\$ (269,970)</u>
Fund balance - beginning of year		<u>3,169,459</u>	
Fund balance - end of year		<u>\$ 2,815,524</u>	

The accompanying notes are an integral part of the financial statements.

CITY OF LAKELAND, TENNESSEE

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
BUDGET AND ACTUAL – SOLID WASTE FUND**

For the Year Ended June 30, 2012

	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
	<u>Original and Final</u>	<u>Actual Amounts</u>	<u></u>
REVENUES			
Charges for services	\$ 1,053,200	\$ 1,094,108	\$ 40,908
EXPENDITURES			
Personnel compensation	44,000	44,712	(712)
Fringe benefits	12,640	13,668	(1,028)
MLGW collection fee	20,700	21,518	(818)
Other professional services	9,000	8,715	285
Contracted service	953,000	1,020,505	(67,505)
Recycling service	-	2,295	(2,295)
Litter control	10,000	8,975	1,025
Total expenditures	<u>1,049,340</u>	<u>1,120,388</u>	<u>(71,048)</u>
Net change in fund balance	<u>\$ 3,860</u>	<u>(26,280)</u>	<u>\$ (30,140)</u>
Fund balance - beginning of year		<u>138,903</u>	
Fund balance - end of year		<u>\$ 112,623</u>	

The accompanying notes are an integral part of the financial statements.

CITY OF LAKELAND, TENNESSEE

**STATEMENT OF NET ASSETS
PROPRIETARY FUND**

June 30, 2012

ASSETS	<u>Sewer Fund</u>
Current assets:	
Cash and cash equivalents	\$ 1,533,488
Receivables	
Customers	85,153
Interest	7,386
Due from other funds	186,751
Total current assets	<u>1,812,778</u>
Capital assets:	
Capital assets, not being depreciated	105,360
Capital assets, being depreciated - net	14,689,270
Total capital assets	<u>14,794,630</u>
Total assets	<u>16,607,408</u>
LIABILITIES	
Current liabilities:	
Accounts payable and accrued expenses	37,383
Due to other funds	2,710
Current portion of notes payable	430,000
Total current liabilities	<u>470,093</u>
Noncurrent liabilities:	
Notes payable, net of current portion	7,377,100
Total liabilities	<u>7,847,193</u>
NET ASSETS	
Invested in capital assets, net of related debt	6,933,630
Unrestricted	1,826,585
Total net assets	<u>\$ 8,760,215</u>

The accompanying notes are an integral part of the financial statements.

CITY OF LAKELAND, TENNESSEE

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND**

For the Year Ended June 30, 2012

	<u>Sewer Fund</u>
Operating revenues:	
Sewer service fee	\$ 963,014
Service connections fees	93,233
Other	<u>9,205</u>
Total operating revenues	1,065,452
Operating expenses:	
Personnel expenses	229,875
General and administrative	384,426
Depreciation	<u>441,819</u>
Total operating expenses	<u>1,056,120</u>
Operating income (loss)	9,332
Nonoperating revenues (expenses):	
Interest income	8,735
Interest and agent fee expense	<u>(80,753)</u>
Total non-operating revenues (expenses)	<u>(72,018)</u>
Income (loss) before contributions	(62,686)
Capital contributions - development fees	<u>4,600</u>
Change in net assets	(58,086)
Net assets - beginning	<u>8,818,301</u>
Net assets - ending	<u><u>\$ 8,760,215</u></u>

The accompanying notes are an integral part of the financial statements.

CITY OF LAKELAND, TENNESSEE

**STATEMENT OF CASH FLOWS
PROPRIETARY FUND**

For the Year Ended June 30, 2012

	<u>Sewer Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers and users	\$ 1,067,622
Payments to suppliers	(360,587)
Payments to employees	<u>(229,875)</u>
Net cash provided by (used for) operating activities	477,160
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Repayment of advance from other funds	(184,041)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Principal payments on capital debt	(413,000)
Acquisition and construction of capital assets	(106,195)
Interest paid on capital debt	(76,903)
Capital contributions from tap and development fees	<u>4,600</u>
Net cash provided by (used for) capital and related financing activities	(591,498)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest income received	<u>10,744</u>
Net increase (decrease) in cash and cash equivalents	(287,635)
Cash and cash equivalents - beginning of the year	<u>1,821,123</u>
Cash and cash equivalents - end of the year	<u><u>\$ 1,533,488</u></u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	\$ 9,332
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:	
Depreciation	441,819
Change in assets and liabilities	
Receivables - customers	2,170
Accounts payable and accrued expenses	<u>23,839</u>
Net cash provided (used) by operating activities	<u><u>\$ 477,160</u></u>

The accompanying notes are an integral part of the financial statements.

CITY OF LAKELAND, TENNESSEE
NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Lakeland, Tennessee (the City) was incorporated in 1977 as a municipal corporation governed by an elected mayor and four-member board of commissioners.

As required by accounting principles generally accepted in the United States of America, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. However, currently there are no component units.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statements of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as is the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Government fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Licenses and permits, fines and forfeitures, and miscellaneous revenues (except for investment earnings) are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

The General Fund is the primary operating fund of the City and accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Solid Waste Fund accounts for the receipts and expenditures related to sanitation services.

The City reports the following non-major governmental funds:

The State Street Aid Fund accounts for the receipts and expenditures of the City's share of the proceeds from the state gasoline tax.

The Storm Water Fund accounts for the receipts and expenditures related to storm water services.

The City reports the following major proprietary fund:

The Sewer Fund accounts for the activities of the City's collection, transportation, treatment and disposition of wastewater.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government – wide financial statements.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the sewer fund are charges to customers for sales and services. The sewer fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the sewer fund includes the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available, it is the policy of the City to generally consider restricted amounts to have been reduced first. When an expenditure is incurred for purposed for which amounts in any of the unrestricted fund balance classifications could be used, it is the policy of the City that committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts. In both instances, when a proposed expenditure is made with specific balances identified as the source of the funding, that specific fund balance will be used.

The City has implemented GASB 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. In the fund financial statements, governmental funds report the following classifications of fund balance:

- Nonspendable – amounts that cannot be spent either because they are either in a (a) nonspendable form, including items not expected to be converted to cash, or (b) legally or contractually required to be maintained intact.
- Restricted – amounts constrained to be used for a specific purpose per external parties, constitutional provisions, or enabling legislation.
- Committed – amounts constrained to be used for specific purposes by formal action by ordinance adopted by the Mayor and Board of Commissioners. Amounts classified as committed are not subject to legal enforceability like restricted resources; however, they cannot be used for any other purpose unless the Board reviews or changes the commitment by taking the same action it employed to impose the commitment.
- Assigned – amounts intended to be used by the City for specific purposes, but are neither restricted nor committed. The intent shall be expressed by the Mayor and Board of Commissioners or a designee authorized by the Mayor and Board of Commissioners for a specific purpose in accordance with the policy established by the Mayor and Board of Commissioners. The natures of the actions necessary to remove or modify an assignment is not as rigid as required under a committed fund balance classification.
- Unassigned – amounts available for any purpose in the General Fund.

D - Assets, liabilities and fund equity

1. Deposits and investments

The City considers all highly liquid investments with an original maturity of three months or less when purchased to be cash and cash equivalents. All certificates of deposit are considered to be cash and cash equivalents.

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

All trade and property taxes receivables are shown net of an allowance for uncollectibles.

All property values are assessed on January 1 of each year. Property taxes receivable are recorded at the lien date. All real and personal property taxes are levied in October of each year, at which time the receivable is recognized as revenue. All unpaid property taxes become delinquent on February 28. Penalties and interest are assessed on unpaid property taxes after the delinquent date.

3. Restricted assets

Certain cash and cash equivalents of the City may be classified as restricted assets on the balance sheet because they are maintained in separate accounts and/or their use is limited by certain agreements and contracts with third parties. Restricted balances may include escrow for construction contractors established to fund retainages of outstanding construction projects.

4. Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., streets, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets, other than infrastructure assets, are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. The government reports infrastructure assets on a network and subsystem basis. Accordingly, the amounts spent for the construction or acquisition of infrastructure assets are capitalized and reported in the government-wide financial statements regardless of their amount.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. In the case of donations, the government values these capital assets at the estimated fair value of the item at the date of its donation.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant and equipment of the primary government is depreciated using the straight-line method over the following estimated useful lives:

Roads and bridges	30 years
Buildings and building improvements	15-40 years
Land improvements	20 years
Machinery, equipment and heavy vehicles	5 years
Automobiles	5 years

5. Compensated absences

It is the government's policy to permit employees to accumulate earned but unused vacation and sick leave benefits. There is no liability for unpaid accumulated sick leave since the government does not have a policy to pay any amounts when employees separate from service with the government. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

6. Long-term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Note issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize note issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

7. Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

8. Use of Estimates

The presentation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

The governmental fund balance sheet includes a reconciliation between fund balance - total governmental funds and net assets - governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that "long-term liabilities, including notes payable and capital leases, are not due and payable in the current period and, therefore, are not reported in the funds." The details of this difference are as follows:

Notes payable	\$ (3,455,834)
Less: Deferred charge for issuance costs (to be amortized over life of debt)	36,750
Capital leases	<u>(27,526)</u>
Net adjustment to reduce fund balance - total governmental funds to arrive at net assets - governmental activities	<u><u>\$ (3,446,610)</u></u>

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances - total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of the difference are as follows:

Capital outlay	\$ 1,485,709
Depreciation expense	(3,242,607)
Gain on disposal	<u>(13,462)</u>
Net adjustment to decrease net change in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	<u><u>\$ (1,770,360)</u></u>

Another element of that reconciliation states that "the issuance of long-term debt (e.g. notes payable and capital leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debts consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs and similar items when first issued, whereas these amounts are deferred and amortized in the statement of activities." The details of this difference are as follows:

Debt issued or incurred:	
Issuance of notes payable	\$ (79,779)
Amortization of issuance costs	(2,375)
Principal repayment on capital leases	37,147
Principal repayment on notes payable	<u>308,000</u>
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ 262,993</u>

NOTE 3 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end.

The revenues and expenditures accounted for in all governmental fund types are controlled by a formal integrated budgetary accounting system. The mayor and board of commissioners approve annually the budgets for these funds. Budgetary control is maintained at the government-wide level by total expenditures and expenditures may not exceed funds budgeted, which constitute the legal spending limit. Management may not amend the budget without approval of the governing body.

B. Excess of expenditures over appropriations

For the year ended June 30, 2012, the State Street Aid Fund's expenditures exceeded appropriations by \$108,135.

C. Deficit fund equity

As of June 30, 2012, no fund had a deficit fund equity.

NOTE 4 - DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

At year end, the City's carrying amount of deposits was \$4,637,214 and the bank balance was \$4,643,743. Of the bank balance, \$500,000 was covered by the Federal Deposit Insurance Corporation with the remaining balance of \$4,143,743 being collateralized with the State of Tennessee Bank Collateral Pool with securities held by the pledging financial institution's trust department or agent in the City's name.

State statutes authorize the City to invest in bonds, notes or treasury bills of the United States of America or any of its agencies, certificates of deposit, repurchase agreements utilizing obligations of the United States of America or its agencies as the underlying securities, state pooled investment

funds, money market mutual funds, and mortgage-backed securities. Statutes require that (1) deposits have securities as collateral whose market value is equal to 105 percent of the value of the deposits, less so much of such amount as is insured by federal deposit insurances and (2) securities underlying repurchase agreements must have a market value of at least equal to the amount of funds invested in the repurchase agreement. Tennessee Code Annotated Sections 9-4-105 and 9-4-404 state that collateralization coverage for cash deposits may be computed based on average daily balances of the preceding month. City deposit policies follow the State statutes.

B. Receivables

Receivables as of year-end for the City's individual major funds, including the applicable allowances for the uncollectible accounts, are as follows:

	General Fund	Sewer Fund	Total
Receivables:			
Taxes	\$ 2,833,190	\$ -	\$ 2,833,190
Interest	11,555	7,386	18,941
Customers	-	85,153	85,153
Gross receivables	2,844,745	92,539	2,937,284
Less: allowance for doubtful accounts	(55,943)	-	(55,943)
Net total receivables	<u>\$ 2,788,802</u>	<u>\$ 92,539</u>	<u>\$ 2,881,341</u>

Amounts due from other governments represent the normal amounts due from state and county governments for shared revenues and tax allocations as well as federal grant receivables.

C. Property Taxes

During 2012 the City implemented a property tax effective January 1, 2012. The City will now levy property taxes annually based upon assessed valuations provided by the Shelby County Assessor.

The property tax rate for the year ended June 30, 2012 was \$0.85 per \$100 of assessed valuation.

The total taxes levied and accrued during 2012 were \$2,797,154. The City estimated tax collections for the year ended June 30, 2012 would be 98% of the tax levy. Therefore, an allowance of \$55,943 was recorded.

D. Capital Assets

Capital asset activity for the year ended June 30, 2012, was as follows:

	Beginning Balance	Increases	Decreases/ Transfers	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 7,140,990	\$ -	\$ -	\$ 7,140,990
Construction in progress	1,840,861	1,485,709	(1,745,838)	1,580,732
Total capital assets, not being depreciated	8,981,851	1,485,709	(1,745,838)	8,721,722
Capital assets, being depreciated:				
Buildings and improvements	2,668,199	-	-	2,668,199
Improvements other than buildings	4,355,166	-	-	4,355,166
Machinery and equipment	1,288,460	-	(39,081)	1,249,379
Infrastructure	61,012,146	-	1,745,838	62,757,984
Total capital assets, being depreciated	69,323,971	-	1,706,757	71,030,728
Less accumulated depreciation for:				
Buildings and improvements	(458,597)	(70,191)	-	(528,788)
Improvements other than buildings	(1,564,053)	(251,367)	-	(1,815,420)
Machinery and equipment	(1,054,617)	(78,017)	25,619	(1,107,015)
Infrastructure	(31,542,019)	(2,843,032)	-	(34,385,051)
Total accumulated depreciation	(34,619,286)	(3,242,607)	25,619	(37,836,274)
Total capital assets, being depreciated, net	34,704,685	(3,242,607)	1,732,376	33,194,454
Governmental activities capital assets, net	<u>\$ 43,686,536</u>	<u>\$ (1,756,898)</u>	<u>\$ (13,462)</u>	<u>\$ 41,916,176</u>
	Beginning Balance	Increases	Decreases/ Transfers	Ending Balance
Business-type activity:				
Capital assets, not being depreciated:				
Land	\$ 75,360	\$ -	\$ -	\$ 75,360
Construction in progress	-	30,000	-	30,000
Total capital assets, not being depreciated	75,360	30,000	-	105,360
Capital assets, being depreciated:				
Sewer plant and improvements	17,937,465	76,195	-	18,013,660
Vehicles and equipment	188,859	-	-	188,859
Total capital assets, being depreciated	18,126,324	76,195	-	18,202,519
Less accumulated depreciation for:				
Sewer plant and improvements	(2,986,291)	(431,896)	-	(3,418,187)
Vehicles and equipment	(85,139)	(9,923)	-	(95,062)
Total accumulated depreciation	(3,071,430)	(441,819)	-	(3,513,249)
Total capital assets, being depreciated, net	15,054,894	(365,624)	-	14,689,270
Business-type activity capital assets, net	<u>\$ 15,130,254</u>	<u>\$ (335,624)</u>	<u>\$ -</u>	<u>\$ 14,794,630</u>

Depreciation expense was charged to function / programs of the primary government as follows:

Governmental Activities:	
General government	\$ 158,904
Public Works	3,026,649
Parks and recreation	57,054
Total depreciation expense - governmental activities	<u>\$ 3,242,607</u>
Business-Type Activity:	
Sewer	<u>\$ 441,819</u>

E. Interfund Receivables, Payables, and Transfers

As of June 30, 2012, the general fund has a payable to the sewer fund for \$184,041.

Transfers are used to move unrestricted general fund revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations. However, there were no transfers during the year ended June 30, 2012.

F. Leases

Operating Leases

The City has entered into a lease agreement with Memphis Works Managerial Club for certain rights and use related to the I.H. Managerial Club Clubhouse through July 1, 2015. The minimum lease payments for years ending June 30 are as follows:

2013	\$ 20,000
2014	20,000
2015	20,000
2016	7,500
	<u>\$ 67,500</u>

Rent expense was \$20,000 under this lease for the year ended June 30, 2012.

Capital Leases

The City entered into a lease agreement as lessee for financing the acquisition of five vehicles. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

During the current year, one vehicle was wrecked and one vehicle was sold. The assets were disposed of and the leases were paid in full by the insurance company. The cost of the assets disposed of was \$39,081. The remaining assets acquired through capital leases were purchased at a cost of \$81,707 with accumulated depreciation of \$60,461 for a net carrying value of \$21,246.

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2012, were as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>
2013	\$ 20,007
2014	9,642
Total minimum lease payments	29,649
Less: amount representing interest	(2,123)
Present value of minimum lease payments	<u>\$ 27,526</u>

I. Long-Term Debt

General obligation loans payable

On July 26, 2004, the City entered into a 20 year loan agreement with the Public Building Authority of the City of Clarksville, Tennessee ("Clarksville PBA") through the Tennessee Municipal League (the "League") for \$3,500,000. The principal on this loan is paid annually while the interest is paid monthly based on a variable interest rate determined monthly by the remarketing agent. At June 30, 2012, the balance outstanding was \$2,122,095 and the interest rate on this loan was .54%. On June 30, 2006, the City entered into a 20 year loan agreement for the City's sewer fund to borrow \$11,000,000 from the Clarksville PBA through the League. The principal on this loan is paid annually while the interest is paid monthly based on a variable interest rate determined monthly by the remarketing agent. At June 30, 2012, the balance outstanding was \$7,861,000 and the interest rate on this loan was .49 %.

On December 22, 2008, the City entered into a 21 year loan agreement with the Clarksville PBA through the Tennessee Municipal League (the "League") for up to \$4,500,000. Money is drawn as needed for various on-going City construction projects. The principal on this loan is paid annually while the interest is paid monthly based on a variable interest rate determined monthly by the remarketing agent. At June 30, 2012, the balance outstanding was \$1,306,881 and the interest rate on this loan was .54%.

On November 10, 2010, the City entered into a financing agreement for a transportation infrastructure project with the Tennessee Department of Transportation ("the Department") for up to \$1,750,000. Money is drawn as needed for the construction project. Repayments of principal will begin ninety days after the Project is completed. At June 30, 2012, the balance outstanding was \$26,858 and the interest rate on this loan was 1.89%. Until the project is complete the full balance is considered current and there are no future maturities.

Changes in long-term liabilities

Long-term liability activity for the year ended June 30, 2012, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Notes payable	\$ 3,684,055	\$ 52,921	\$ (308,000)	\$ 3,428,976	\$ 319,000
Less deferred amounts:					
For issuance costs	(39,125)	-	2,375	(36,750)	-
Total notes payable	3,644,930	52,921	(305,625)	3,392,226	319,000
Construction loan	-	26,858	-	26,858	26,858
Capital leases	64,673	-	(37,147)	27,526	18,115
Governmental-type activity long-term liabilities	<u>\$ 3,709,603</u>	<u>\$ 79,779</u>	<u>\$ (342,772)</u>	<u>\$ 3,446,610</u>	<u>\$ 363,973</u>
Business-type activities:					
Notes payable	\$ 8,274,000	\$ -	\$ (413,000)	\$ 7,861,000	\$ 430,000
Less deferred amounts:					
For issuance costs	(57,750)	-	3,850	(53,900)	-
Business-type activity long-term liabilities	<u>\$ 8,216,250</u>	<u>\$ -</u>	<u>\$ (409,150)</u>	<u>\$ 7,807,100</u>	<u>\$ 430,000</u>

Annual debt service requirements to maturity based on current interest rates for notes payable are as follows:

Years Ending June 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2013	\$ 319,000	\$ 18,516	\$ 430,000	\$ 38,519
2014	333,000	16,794	447,000	36,412
2015	346,000	14,996	465,000	34,222
2016	360,000	13,128	483,000	31,943
2017	374,000	11,183	503,000	29,576
2018-2022	1,490,881	26,897	2,832,000	108,893
2023-2026	206,095	1,113	2,701,000	33,742
	<u>\$ 3,428,976</u>	<u>\$ 102,627</u>	<u>\$ 7,861,000</u>	<u>\$ 313,307</u>

The City is not subject to any state or other law that limits the amount of net bonded debt a City may have outstanding, therefore, there is no legal debt margin or computation thereof. The City's full faith, credit, and unlimited taxing authority are pledged to the repayment of all general obligation note principal and interest.

NOTE 5 - EMPLOYEE RETIREMENT SYSTEM

A. Plan Description

Employees of Lakeland are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability

benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979 become vested after five years of service and members joining prior to July 1, 1979 were vested after four years of service. Benefit provisions are established in the state statute found in Title 8, Chapter 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Political subdivisions such as Lakeland participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, Tennessee 37243-0230 or can be accessed at www.tn.gov/treasury/tcrs/PS.

B. Funding Policy

Lakeland requires employees to contribute 5.0% of earnable compensation.

Lakeland is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2012 was 8.50% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for Lakeland is established and may be amended by the TCRS Board of Trustees.

C. Annual Pension Cost

For the year ending June 30, 2012, Lakeland's annual pension cost of \$87,599 to TCRS was equal to Lakeland's required and actual contributions. The required contribution was determined as part of the July 1, 2009 actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5% a year compounded annually, (b) projected 3.0% annual rate of inflation, (c) projected salary increases of 4.75% (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (d) projected 3.5% annual increase in the Social Security wage base, and (e) projected post retirement increases of 2.5% annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a ten year period. Lakeland's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2009 was 15 years. An actuarial valuation was performed as of July 1, 2011, which established contribution rates effective July 1, 2012.

D. Trend Information

Fiscal Year Ending	Annual Pension Cost	Percentage of APC Contributed	Net Pension Obligation
June 30, 2012	\$ 87,599	100%	\$ -
June 30, 2011	\$ 85,591	100%	\$ -
June 30, 2010	\$ 91,065	100%	\$ -

E. Funded Status and Funding Progress

As of July 1, 2011, the most recent actuarial valuation date, the plan was 82.96% funded. The actuarial accrued liability for benefits was \$1.14 million, and the actuarial value of assets was \$0.95 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$0.19 million. The covered payroll (annual payroll of active employees covered by the plan) was \$1.05 million, and the ratio of the UAAL to the covered payroll was 18.63%.

The schedule of funding progress, as presented in the following table, presents multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
July 1, 2011	\$ 948,000	\$ 1,143,000	\$ 195,000	82.96%	\$ 1,045,000	18.63%
July 1, 2009	\$ 507,000	\$ 507,000	\$ -	100.00%	\$ 1,109,000	0.00%
July 1, 2007	\$ 253,000	\$ 253,000	\$ -	100.00%	\$ 729,000	0.00%

NOTE 6 - COMMITMENTS AND CONTINGENCIES

The City has entered into lease agreements with various governmental units and organizations. The terms of these leases vary and require only nominal token payments, if any. Annual lease payments are not material.

Several lawsuits against the City are ongoing. The ultimate outcome of the actions is not determinable; however, City officials believe that the outcome of these proceedings, either singularly or in the aggregate, will not have a materially adverse effect on the accompanying general purpose financial statements.

NOTE 7 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The City decided it was more economically feasible to join a public entity risk pool as opposed to purchasing commercial insurance for general liability, auto liability, errors and omissions, and auto physical damage coverage. The City joined the Tennessee Municipal League Risk Pool (the Pool), which is a public entity risk pool established in 1979 by the Tennessee Municipal League. The City pays annual premiums to the Pool and its general liability, auto liability, real and personal property damage, workmen's compensation, and errors and omissions policies. The Pool provides the specified coverage and pays all claims from its member premiums charged or through reinsurance policies. The City's premiums are calculated based on its prior claims history. It is the policy of the City to purchase commercial insurance for the risks of employee dishonesty. The City has not incurred any losses in excess of commercial insurance coverage for the past three fiscal years.

CITY OF LAKELAND, TENNESSEE

COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS

June 30, 2012

	<u>Special Revenue Funds</u>		<u>Total Nonmajor Governmental Funds</u>
	<u>State Street Aid</u>	<u>Storm Water</u>	
ASSETS			
Cash and cash equivalents	\$ (7,582)	\$ 108,955	\$ 101,373
Due from other governments	<u>57,210</u>	<u>14,260</u>	<u>71,470</u>
 Total assets	 <u><u>\$ 49,628</u></u>	 <u><u>\$ 123,215</u></u>	 <u><u>\$ 172,843</u></u>
 LIABILITIES AND FUND BALANCES			
Fund balances:			
Restricted	\$ 49,628	\$ -	\$ 49,628
Committed	<u>-</u>	<u>123,215</u>	<u>123,215</u>
	<u><u>\$ 49,628</u></u>	<u><u>\$ 123,215</u></u>	<u><u>\$ 172,843</u></u>

CITY OF LAKELAND, TENNESSEE

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES – NONMAJOR GOVERNMENTAL FUNDS**

June 30, 2012

	Special Revenue Funds		Total Nonmajor Governmental Funds
	State Street Aid	Storm Water	
REVENUES			
Intergovernmental	\$ 322,244	\$ -	\$ 322,244
Charges for services	-	175,183	175,183
Total revenues	<u>322,244</u>	<u>175,183</u>	<u>497,427</u>
EXPENDITURES			
Current			
Public works	<u>350,335</u>	<u>110,473</u>	<u>460,808</u>
Net change in fund balances	(28,091)	64,710	36,619
Fund balances - beginning	<u>77,719</u>	<u>58,505</u>	<u>136,224</u>
Fund balances - ending	<u><u>\$ 49,628</u></u>	<u><u>\$ 123,215</u></u>	<u><u>\$ 172,843</u></u>

CITY OF LAKELAND, TENNESSEE

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
BUDGET AND ACTUAL – NONMAJOR GOVERNMENTAL FUNDS**

For the Year Ended June 30, 2012

	State Street Aid		
	Budgeted	Actual	Variance with
	Amounts		Final Budget -
	Original and	Amounts	Positive
	Final		(Negative)
REVENUES			
Intergovernmental - gasoline and motor fuel tax	\$ 346,400	\$ 322,244	\$ (24,156)
EXPENDITURES			
Personnel compensation	-	135,982	(135,982)
Fringe benefits	-	37,447	(37,447)
Repairs and maintenance	168,300	111,087	57,213
Grass mowing	20,000	35,755	(15,755)
Street lighting	14,000	14,629	(629)
Other services, machinery, and equipment	9,900	14,137	(4,237)
Capital expenditures	30,000	1,298	28,702
Total expenditures	242,200	350,335	(108,135)
Net change in fund balance	\$ 104,200	(28,091)	\$ (132,291)
Fund balance - beginning of year		77,719	
Fund balance - end of year		\$ 49,628	

CITY OF LAKELAND, TENNESSEE

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
BUDGET AND ACTUAL – NONMAJOR GOVERNMENTAL FUNDS (CONTINUED)**

For the Year Ended June 30, 2012

	Storm Water		
	Budgeted Amounts		Variance with Final Budget -
	Original and Final	Actual Amounts	Positive (Negative)
REVENUES			
Charges for services - storm water	\$ 172,900	\$ 175,183	\$ 2,283
EXPENDITURES			
Personnel compensation	76,750	72,549	4,201
Fringe benefits	34,130	19,327	14,803
Contracted services	4,000	5,004	(1,004)
Other fees, supplies, and miscellaneous	82,115	13,593	68,522
Total expenditures	<u>196,995</u>	<u>110,473</u>	<u>86,522</u>
Net change in fund balance	<u>\$ (24,095)</u>	64,710	<u>\$ 88,805</u>
Fund balance - beginning of year		<u>58,505</u>	
Fund balance - end of year		<u>\$ 123,215</u>	

CITY OF LAKELAND, TENNESSEE

**SCHEDULE OF NOTES PAYABLE
FUTURE MATURITIES (INCLUDING INTEREST)**

June 30, 2012

Fiscal Year	Governmental Activities				Business-type Activities			
	2004 Note Payable - Public Building Authority - Clarksville		2008 Note Payable - Public Building Authority - Clarksville		Total		2006 Note Payable - Public Building Authority - Clarksville	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 163,000	\$ 11,459	\$ 156,000	\$ 7,057	\$ 319,000	\$ 18,516	\$ 430,000	\$ 38,519
2014	169,000	10,579	164,000	6,215	333,000	16,794	447,000	36,412
2015	175,000	9,667	171,000	5,329	346,000	14,996	465,000	34,222
2016	181,000	8,722	179,000	4,406	360,000	13,128	483,000	31,943
2017	187,000	7,744	187,000	3,439	374,000	11,183	503,000	29,576
2018	194,000	6,734	195,000	2,429	389,000	9,163	523,000	27,112
2019	201,000	5,687	204,000	1,376	405,000	7,063	544,000	24,549
2020	208,000	4,601	50,881	275	258,881	4,876	565,000	21,883
2021	215,000	3,478	-	-	215,000	3,478	588,000	19,115
2022	223,000	2,317	-	-	223,000	2,317	612,000	16,234
2023	206,095	1,113	-	-	206,095	1,113	636,000	13,235
2024	-	-	-	-	-	-	661,000	10,119
2025	-	-	-	-	-	-	688,000	6,880
2026	-	-	-	-	-	-	716,000	3,508
	<u>\$ 2,122,095</u>	<u>\$ 72,101</u>	<u>\$ 1,306,881</u>	<u>\$ 30,526</u>	<u>\$ 3,428,976</u>	<u>\$ 102,627</u>	<u>\$ 7,861,000</u>	<u>\$ 313,307</u>

CITY OF LAKELAND, TENNESSEE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE

For the Year Ended June 30, 2012

<u>Federal Grantor/ Pass-Through Grantor</u>	<u>CFDA Number</u>	<u>Contract Number</u>	<u>Beginning Accrued (Deferred)</u>	<u>Cash Receipts</u>	<u>Expenditures</u>	<u>Ending Accrued (Deferred)</u>
<u>Federal Awards</u>						
U.S. Dept. of Transportation/TN Dept of Transportation (ARRA)						
Highway Planning and Construction	20.205	090122	\$ 311,442	\$ 306,643	\$ 54,414	\$ 59,213
Highway Planning and Construction	20.205	110014	-	6,085	6,181	96
Highway Planning and Construction	20.205	070193	-	160,617	280,686	120,069
Total Program 20.205			<u>311,442</u>	<u>473,345</u>	<u>341,281</u>	<u>179,378</u>
U.S. Dept. of Housing and Urban Development						
CDBG - Entitlement Grants	14.218	CA108389	<u>15,953</u>	<u>181,141</u>	<u>199,261</u>	<u>34,073</u>
TOTAL FEDERAL AWARDS			<u>327,395</u>	<u>654,486</u>	<u>540,542</u>	<u>213,451</u>
<u>State Financial Assistance</u>						
TN Dept. of Environment and Conservation	N/A	GG-11-346500-00	<u>-</u>	<u>72,071</u>	<u>92,664</u>	<u>20,593</u>
TOTAL STATE AWARDS			<u>-</u>	<u>72,071</u>	<u>92,664</u>	<u>20,593</u>
TOTAL FEDERAL & STATE AWARDS			<u>\$ 327,395</u>	<u>\$ 726,557</u>	<u>633,206</u>	<u>\$ 234,044</u>

NOTE 1 – BASIS OF PRESENTATION

The schedule of expenditures of federal and state awards (the Schedule) includes the federal and state grant activity of the City of Lakeland, TN (the City) under programs of the federal and state governments for the year ended June 30, 2012. The information in this Schedule is presented in accordance with the requirement of OMB Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the City, it is not intended and does not present the financial position, changes in net assets, or cash flows of the City.

CITY OF LAKELAND, TENNESSEE

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND
STATE FINANCIAL ASSISTANCE (CONTINUED)**

For the Year Ended June 30, 2012

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, wherein certain types of expenditures are not allowed or are limited as to reimbursement.

**NOTE 3 – RECONCILIATION OF THE SCHEDULE OF EXPENTIRUES OF FEDERAL AND STATE
AWARDS TO THE FINANCIAL STATEMENTS**

The following is a reconciliation of expenditures per the schedule of expenditures of federal and state awards to the revenue balances in the City's financial statements:

Total grant revenue per governmental funds financial statements	\$ 806,360
Less: Decrease in deferred grant revenues	<u>(173,154)</u>
Total federal and state awards	<u><u>\$ 633,206</u></u>

CITY OF LAKELAND, TENNESSEE
SCHEDULE OF OFFICIAL BONDS OF PRINCIPAL OFFICIALS

June 30, 2012

	<u>Amount of Bond</u>
Mayor	\$ 10,000
City Manager	20,000
City Recorder	10,000

CITY OF LAKELAND, TENNESSEE

SCHEDULE OF INSURANCE

June 30, 2012

Insurance Company	Type of Coverage	Description
TML Risk Management - TMP-3192-09	Property Insurance	Maximum amount covered per occurrence - \$1,500,000 buildings, \$50,000 personal property, \$500,000 equipment, \$500,000 property in the course of construction, \$1,000,000 flood damage, \$500,000 earthquake damage, \$250,000 loss of revenue and other various coverages ranging from \$50,000 to \$500,000 per occurrence. \$1,000 deductible for all coverages.
	Crime Coverages	\$150,000 employee dishonesty, \$150,000 forgery or alteration, \$100,000 theft disappearance or destruction, \$100,000 computer fraud. \$500 deductible employee dishonesty, \$1,000 deductible forgery or alteration.
TML Risk Management - TMP-067-09	General Liability and Personal Injury	\$300,000/\$700,000 bodily injury tort liability, \$100,000 property damage tort liability, \$100,000 fire damage, \$100,000 each, impounded property, \$1,000 per person, \$10,000 per accident medical payment, \$1,000,000 each, other loss \$50,000 non-monetary defense loss.
	Automobile Liability	\$300,000/\$700,000 bodily injury, \$100,000 property damage, \$1,000,000 per occurrence, \$1,000 per person, \$10,000 per accident medical payments
	Uninsured Motorist	\$60,000 per occurrence bodily injury, \$100,000 property damage
	Comprehensive	\$500 deductible per occurrence
	Collision	\$500 deductible per occurrence
	Errors or Omissions	\$1,000,000 per occurrence, \$50,000 non-monetary defense loss, \$1,000 deductible
TML Risk Management - TWC-0394-02	Workman's Compensation	\$300,000 bodily injury each accident, \$700,000 bodily injury by policy limit, \$300,000 each employee by disease.
RLI Insurance Company - LSM0043673	Office Coordinator and Notary Bond	\$10,000
RLI Insurance Company - 1517440N00	Notary Public - Bond	\$10,000
Western Surety Company - 53936821	City Manager - Bond	\$20,000
Western Surety Company - 53936822	Mayor - Bond	\$10,000
Western Surety Company - 15286503N000	Notary Bond	\$10,000
RLI Surety Division DRS1038102	City Recorder	\$10,000

CITY OF LAKELAND, TENNESSEE

SCHEDULE OF SEWER, SANITATION, AND STORM WATER RATES

June 30, 2012

As of June 30, 2012, the City of Lakeland, Tennessee served approximately 2,826, 3,958, and 4,407 sewer, sanitation, and storm water customers, respectively, and had the following rate structure in place:

Sewer Rates:

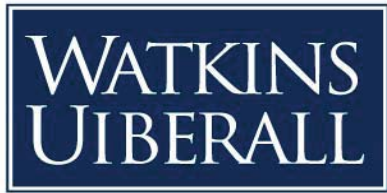
Type	Rate - Based on Gallons of Water Used
Residential	\$27.20 minimum for the first 8.01 ccf, thereafter \$1.12 per ccf with a \$40.00 maximum per month \$11.50 per month for users of the City of Memphis sewer system
Commercial	\$56.35 minimum for the first 40.91 ccf, thereafter \$1.21 per ccf

Sanitation Rates:

Type	Monthly Charge
Residential	\$24.05

Storm Water Rates:

Type	Monthly Charge
Residential	\$3.20



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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Mayor and Board of Commissioners of the
City of Lakeland, Tennessee:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, the statements of budgetary comparison for the general fund and solid waste fund, and the aggregate remaining fund information of the City of Lakeland, Tennessee (the "City") as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 12, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the City is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be a material weakness, as defined above.

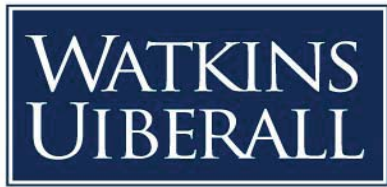
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Mayor, Board of Commissioners, management, the State of Tennessee, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Watkins Wilkerson, PLLC". The signature is written in a cursive, flowing style.

Memphis, Tennessee
December 12, 2012



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Mayor and Board of Commissioners of the
City of Lakeland, Tennessee:

Compliance

We have audited the City of Lakeland, Tennessee's (the "City") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the City's major federal program for the year ended June 30, 2012. The City's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2012.

Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Mayor, Board of Commissioners, management, the State of Tennessee, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Watkins Wilkerson, PLLC". The signature is written in a cursive, flowing style.

Memphis, Tennessee
December 12, 2012

CITY OF LAKELAND, TENNESSEE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2012

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of the City of Lakeland, Tennessee (the "City").
2. No significant deficiencies related to the financial statements of the city were disclosed during the audit.
3. No instances of noncompliance material to the financial statements of the City were disclosed during the audit.
4. No significant deficiencies in internal control over major federal award programs are reported.
5. The auditor's report on compliance for the major federal award program for the City expresses an unqualified opinion on the major program.
6. There were no audit findings required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The program tested as a major program included:

20.205 – Highway Planning and Construction
8. The threshold for distinguishing between Type A and B programs was \$300,000.
9. The City was not determined to be a low risk auditee.

B. FINDINGS – FINANCIAL STATEMENTS AUDIT

NONE

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAM AUDIT

NONE

CITY OF LAKELAND, TENNESSEE
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

June 30, 2012

2011-1

Condition: The City has a lack of segregation of duties in the cash receipts process.

Criteria: Duties should be segregated within the finance department in a manner that would prevent fraud.

Effect: The employee having access to the cash receipts and the ability to record entries has the opportunity to perpetrate and conceal fraud.

Recommendation: We recommend segregating these duties and the employee in charge of making journal entries should not have access to cash or checks.

Current Status: The recommendation was adopted during fiscal year 2012, and the necessary changes to separate these duties appear to have been made.